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Federal Policies in Transition

During the past several months hundreds of groups have developed recommendations to present to President-elect George Bush and his transition team. Obviously some of the plans will receive more earnest attention than others. This is particularly true of two reports, one containing substantial contributions by collaborating authors Gerald Ford and Jimmy Carter, and a second sponsored by a distinguished Council on Competitiveness that includes leaders of industry, labor, and academia. The reports are mutually supportive in many ways, including a statement of the need for this country to improve its competitiveness. They note that the United States is not faring well in the global economy. For example, 15 years ago U.S. companies made 95% of telephones and 80% of television sets for U.S. homes. Today U.S. companies make 25% of telephones and 10% of television sets sold here. The U.S. share of world steel production in 1960 was 26%; now it is 11%.

The reports point to a relative paucity of U.S. investments directed at improving productivity. In turn, this lack is related to a poor national savings rate of 2% of gross national product (GNP). The average national savings rates of other industrial countries is about 10% of GNP. For Japan it is about 16%. The net national savings rate is defined as the sum of individual and corporate savings plus government surpluses or deficits. During the 1980s individuals have decreased their savings, and in 1987 U.S. consumers owed 85% of their year's after-tax income. The federal deficit also increased greatly.

There were few specific ideas about how to induce individuals to save more. (With plastic money so freely available, a downward trend in savings will probably continue.) Instead, the need to reduce the federal deficit was emphasized. A combination of budget cutting and increased taxes was recommended. The nondefense discretionary part of the budget is already so small that cuts must be found elsewhere, notably in the entitlements programs, which constitute 46% of the budget.

On the revenue side both reports cited cigarettes, alcohol, and gasoline as attractive targets for increases. In 1951 the excise tax represented 42% of the price of cigarettes; currently it amounts to only 15%. Similar remarks apply to beer, wine, and distilled spirits. The gasoline tax in some other countries amounts to $1 a gallon or more. Here, the federal tax is 9.1 cents per gallon. For every cent added, $1 billion of revenue would be obtained. The Council on Competitiveness, which made the most extensive studies of the deficit, also recommended consideration of moderate increases in the personal income tax, including a 33% rate on large incomes and a 5% surtax for all payers.

The reports recommended that more funds be made available to increase U.S. competence in science and technology. It was pointed out that although funds for federal R&D increased 100% during the past 7 years, 90% of this increase has been defense-related. In constant dollars civilian R&D is 14% below the 1980 level. In real terms National Science Foundation funds have been virtually unchanged for the past 20 years. During the past 20 years federal funding for university plants and facilities has declined 95% in real terms.

The Council on Competitiveness suggests that once the process of credible deficit reduction is under way, the following steps should be taken: strengthen the federal role in science and technology by doubling the NSF budget over 5 years, increase NSF funding for programs to encourage the development of science and engineering faculty, and provide additional federal resources to modernize university research facilities. The council would also make additional funding available for human resource development with emphasis on programs to serve the economically disadvantaged, to strengthen math and science education, and to provide training and employment services to dislocated workers.

The Council on Competitiveness says that the success of any deficit reduction effort will rest on the meshing of three basic principles. First, all sectors should contribute to the deficit-reduction initiative. Second, changes should be fair; they should not undermine the nation's historic commitment to equity. Third, attempts should be made to ensure that changes in either budget or tax policy increase economic efficiency and minimize any adverse impact on levels of private savings and investment.—PHILIP H. ABELSON